



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LEWIS COUNTY CLERK**

Calendar Year 2001

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable George M Plummer, Lewis County Judge/Executive
Honorable Shirley A Hinton, Lewis County Clerk
Members of the Lewis County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the County Clerk of Lewis County, Kentucky, for the year ended December 31, 2001.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC, evaluated the Lewis County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure

**AUDIT EXAMINATION OF THE
LEWIS COUNTY CLERK**

Calendar Year 2001

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LEWIS COUNTY CLERK

Calendar Year 2001

Berger & Ross, PLLC has completed the County Clerk's audit for calendar year 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects. We have presented the accompanying comments and recommendations, which discuss the following area of noncompliance:

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Financial Condition:

Excess fees decreased by \$2,471 from the prior calendar year resulting in excess fees of \$21,183 as of December 31, 2001. Excess fees are payable to the Fiscal Court. The Clerk has paid all excess fees due for calendar year 2001. Revenues increased by \$33,076 from the prior year and disbursements increased by \$35,546.

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To The People Of Kentucky
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Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Lewis County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above present fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2001, in conformity with the basis of accounting described above.

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In accordance with Government Auditing Standards, we have also issued our report dated June 12, 2002, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed -
June 12, 2002

LEWIS COUNTY
SHIRLEY A. HINTON, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 2001

Receipts

State Payments:

State Fees For Services	\$	2,757
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Fiscal Court		4,114
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	274,794
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Usage Tax	534,575
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Tangible Personal Property Tax	602,027
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Licenses

Fish and Game	9,086
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Marriage	4,520
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Occupational	1,199
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Deed Transfer Tax	13,904
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Delinquent Taxes	<u>52,597</u>	1,492,702
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Fees Collected For Services:

Recordings-

Deeds, Easements, and Contracts	\$	13,471
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Real Estate Mortgages	14,126
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Chattel Mortgages and Financing Statements	43,772
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Other Recordings	<u>10,747</u>	82,116
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Other:

Notary	\$	494
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Candidate Filing Fee	250
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Late Filing	420
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Copywork	2,834
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Miscellaneous	150
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Interest Earned	<u>654</u>	4,802
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Gross Receipts		<u>\$ 1,586,491</u>
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The accompanying notes are an integral part of the financial statement.

LEWIS COUNTY
SHIRLEY A. HINTON, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
Calendar Year 2001
(Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses & Transfers	\$ 210,531	
Usage Tax	518,559	
Tangible Personal Property Tax	225,096	

Licenses and Taxes:

Fish and Game Licenses	8,807	
Delinquent Tax	6,903	
Legal Process Tax	11,078	
Marriage Licenses	<u>1,769</u>	\$ 982,743

Payments to Fiscal Court:

Tangible Personal Property Tax	\$ 63,851	
Delinquent Tax	9,015	
Deed Transfer Tax	13,208	
Occupational Licenses	<u>746</u>	86,820

Payments to Other Districts:

Tangible Personal Property Tax	\$ 290,061	
Delinquent Tax	<u>22,919</u>	312,980

Payments to Sheriff		1,008
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Payments to County Attorney		7,083
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Operating Disbursements:

Personnel Services:

Deputies Salaries	\$ 77,994	
Unemployment Insurance	<u>28</u>	78,022

Supplies and Materials-

Office Supplies		21,118
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Disbursements (Carried Forward)		<u>\$ 1,489,774</u>
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The accompanying notes are an integral part of the financial statement.

LEWIS COUNTY
SHIRLEY A. HINTON, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
Calendar Year 2001
(Continued)

Total Disbursements (Brought Forward)		<u>\$ 1,489,774</u>
Other Charges-		
Conference and Travel	\$ 1,002	
Tax Bill Printing	2,353	
Postage	4,044	
Dues	400	
Election Filing Fee	150	
Bonds	322	
Miscellaneous/Refunds	<u>2,357</u>	10,628
Total Disbursements		<u>\$ 1,500,402</u>
Net Receipts		\$ 86,089
Less: Statutory Maximum		<u>61,306</u>
Excess Fees		\$ 24,783
Less: Expense Account		<u>3,600</u>
Excess Fees Due County for Calendar Year 2001		\$ 21,183
Payment to County Treasurer - March 9, 2002		<u>21,183</u>
Amount Due		<u><u>\$ -</u></u>

The accompanying notes are an integral part of the financial statement.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's Office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. The county's contribution rate for non-hazardous employees was 7.17 percent for the first six months and 6.41 percent for the last six months of the calendar year.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to the KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County Clerk entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of April 3, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$9,530 of public funds uninsured and unsecured.

The County Clerk's deposits are categorized below to give an indication of the level of risk assumed by the county official as of April 3, 2001:

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 50,000
FDIC Coverage	100,000
Uncollateralized and unsecured	<u>9,530</u>
Total	<u>\$ 159,530</u>

Note 4. Grant(s)

As of December 31, 2001, the County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$6,280, and did not incur any expenditures during calendar year 2001.

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COMMENT AND RECOMMENDATION

LEWIS COUNTY
SHIRLEY A HINTON, COUNTY CLERK
COMMENT AND RECOMMENDATION

Calendar Year 2001

STATE LAWS AND REGULATIONS:

The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On April 3, 2001, \$9,530 of the County Clerk's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the County Clerk require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Clerk's Response:

I have instructed the bank to increase our Pledge of Securities by \$20,000 effective June 13, 2002 making the total coverage to be \$70,000 plus the FDIC insurance amount.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Members of the American Institute of Certified Public Accountants (AICPA) and the National Association of Public Accountants (NAPAs).
Firm is a member of the Kentucky Society of Certified Public Accountants (KSCPA).
Firm is a member of the American Association of Fraud Examiners (AAFE).
Firm is a member of the American Society of Certified Fraud Examiners (ASCFE).
Firm is a member of the American Society of Public Accountants (ASPA).
Firm is a member of the American Society of Professional Accountants (ASPA).

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Report on Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Lewis County Clerk for the year ended December 31, 2001, and have issued our report thereon dated June 12, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lewis County Clerk's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards.

- The County clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lewis County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", followed by a long horizontal flourish.

Berger & Ross, PLLC

Audit fieldwork completed -
June 12, 2002

